

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

July 15, 1997

The Capital Projects and Bond Oversight Committee met on Tuesday, July 15, 1997, at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Robert Damron, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Robert Damron, Chairman; Senator Robert Leeper, Vice-Chairman; Senator Tom Buford; Representatives Drew Graham, Paul Marcotte, and Jim Wayne.

Guests: Bill Hintze and Allen Holt, Governor's Office for Policy and Management; Commissioner Armond Russ, Department for Facilities Management; Kim Blich, Marilyn Eaton-Thomas, Bart Hardin, and Tom Howard, Office of Financial Management and Economic Analysis; Sherron Jackson, Council on Postsecondary Education; Mary Allen, University of Kentucky; Dr. Bob Tarvin, School Facilities Construction Commission; Steve Brodt and Dave VanMeter, Kentucky State Police; Clyde Caudill, Kentucky School Boards Association; Mark Chellgren, Associated Press; Kim Burch, Karen Hilborn Crabtree, and Jack Affeldt, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Scott Varland, Shawn Bowen.

Senator Buford made the motion to approve the minutes of the June 17, 1997, meeting as submitted. The motion was seconded by Representative Marcotte and approved by voice vote.

Chairman Damron said four correspondence items were included in this month's folders: the Kentucky Lottery Corporation's monthly financial status report for May; the Administrative Office of the Court's quarterly status report on court facility construction and renovation projects; the Finance and Administration Cabinet's quarterly capital projects status report; and, correspondence from Chairman Damron to the Chairs of the

Ms. Marilyn Eaton-Thomas, Office of Financial Management and Economic Analysis (OFMEA), reported on four new Kentucky Infrastructure Authority (KIA) loans and one KIA reapproval loan.

The first KIA project was a Fund A Loan for the Warren County Water District in Bowling Green, Kentucky. The loan will be used to build a new sewer interceptor along US Highway 68 West. Warren County Water District is requesting \$982,400 from KIA. The interest rate will be 3.8% for 20 years, and there will be no water rate increase for customers. The Tennessee Valley Authority (TVA) will provide a \$100,000 grant to the project, and a TVA office building will be one of the first facilities in the area.

Senator Buford made the motion to approve the KIA Fund A Loan for the Warren County Water District. The motion was seconded by Representative Marcotte and passed by voice vote.

Ms. Eaton-Thomas reported that the City of Radcliff, Hardin County, is requesting a \$4,836,450 Fund A Loan from KIA. The loan will be used to improve and expand the wastewater system. The interest rate will be 3.8% for 20 years, and water rates for customers will increase by approximately \$5.00 per month (41%).

Chairman Damron asked how long had it been since the city had a rate increase. Ms. Eaton-Thomas responded that she could not recall, but she would find out. Chairman Damron said this was a substantial rate increase, but noted current rates are very low. Ms. Eaton-Thomas said current rates are under average for that part of the state, and the new rates would be average for the area.

Senator Buford made the motion to approve the KIA Fund A Loan for the City of Radcliff, Hardin County, subject to the city meeting the condition stipulated by KIA that no funds be disbursed until the user charge has been reviewed and approved by the Division of Water and by KIA. The motion was seconded by Representative Wayne and passed by voice vote.

The next loan request reported was a KIA Fund C Loan for the East Pendleton Water District in Pendleton County for \$230,130. The loan will be used to repair damage to the water distribution system caused by flooding. The interest rate will be the market rate, estimated to be 7%; the loan will be for 20 years. Ms. Eaton-Thomas indicated that residents in the various regions of the District have paid two different

the grant application process is moving slowly, Pendleton is applying to KIA to provide interim financing to complete repairs to the system.

Chairman Damron asked if the city will roll back water rates if grant assistance is received from FEMA, and if they will wait to hear from FEMA before increasing the rates. Ms. Eaton-Thomas replied that if assistance is received from FEMA, rates would probably be rolled back because the East Pendleton Water District operates under the Public Service Commission, and cannot set rates higher than necessary. She said, in this case, the city may still want to adjust its water rates to make residential rates uniform.

Senator Buford made the motion to approve the KIA Fund C Loan for the East Pendleton Water District. The motion was seconded by Representative Wayne and passed by voice vote.

Ms. Eaton-Thomas reported the City of Hardinsburg, Breckinridge County, is requesting a KIA Solid Waste Revolving Fund Loan (Fund E) for \$150,000. The loan will be used to build a solid waste transfer station. The interest rate will be 2.7% for 15 years, and there will be no increase in the solid waste user charge, which currently averages \$8.22 per month.

KIA approval of this project is subject to the following conditions: the city must account for the operation of the Sanitation Department in an enterprise fund; the management contract with Professional Services Group (PSG) must be a qualified contract which would not cause bonds issued by the KIA to be private activity bonds, any changes to PSG's contract must be submitted to KIA 30 days in advance and subject to KIA's approval; and, the city will enter into an indemnification and hold harmless agreement with KIA regarding any potential liability which might arise as a result of any environmental contamination.

Representative Wayne made the motion to approve the KIA Fund E Loan to the City of Hardinsburg, Breckinridge County, subject to conditions set forth by KIA. The motion was seconded by Senator Buford and passed by voice vote.

Ms. Eaton-Thomas next discussed the Reidland Water and Sewer District Project in McCracken County. This is the second phase of a wastewater system improvement project originally approved in 1994. The project has been held up due to

Farmer's Home financing, Community Development Block Grants, or Appalachian Regional Commission funding, and it was determined that KIA's Federally-Assisted Wastewater Revolving Loan program was the best source of financing for the project. She added that the District has been under a tap-on ban since 1991 and has not been able to grow.

KIA reapproved this loan for \$3,517,638 with an interest rate of 3.8% for 20 years subject to the following conditions: documentation that all sewer customers have been notified in advance of the sewer rate adjustment, documentation of the Replacement Reserve Accounts for Phase I and Phase II in all future audits, and written explanation from the District as to how the account will be maintained and reported.

Senator Leeper made the motion to approve the KIA Fund A Loan for the Reidland Water and Sewer District in McCracken County. The motion was seconded by Representative Graham and passed by voice vote.

Ms. Eaton-Thomas reported on the KIA's newest loan program, the Safe Drinking Water Fund. She said her office is preparing an application to the U.S. Environmental Protection Agency (EPA) for funding. The 1997 federal appropriation is \$1.275 billion. The state's share will be \$12.5 million, and will require a state match of \$2.5 million, for a total of \$15 million. KIA will sell revenue bonds to provide the matching portion. KIA is hoping to receive an annual appropriation through the year 2003.

Ms. Eaton-Thomas said KIA will administer the funds with assistance from the Division of Water, Safe Water Drinking Branch. Ms. Vicki Ray, Manager of the Safe Water Drinking Branch, and her staff, have been working diligently to develop a priority system for selecting projects. The state must assure that all projects funded are eligible and from the priority list. The state must also set up a solvent revolving loan fund that will grow and fund projects indefinitely.

The focus of the program is to fund projects that will protect public health and help local governments meet the safe drinking water requirements. Eligible applicants include any kind of governmental agency. Eligible projects include almost any activity in the area of water distribution and treatment. Projects primarily for growth or fire protection, however, are not eligible. Reservoirs are also ineligible for funding, unless

and 1.8% for lower-income communities. In the case of default, the loan can be extended to 30 years. KIA hopes to begin taking applications November 1.

Chairman Damron said KIA status reports for its loan programs were in the members' folders.

Mr. Tom Howard, OFMEA, next presented a follow-up report on Murray State University Housing and Dining System Revenue Bonds, 1997 Series M. These bonds were issued for renovations of Winslow Hall Cafeteria. Gross proceeds were \$825,000. The bonds sold on June 12 and closed on June 26 with a final maturity of September 1, 2017. Bonds maturing on or after September 1, 2008, will be subject to redemption prior to maturity at the discretion of the University. The true interest cost on the bonds was 5.4867%, and the applicable Bond Buyer Index for the same period of time was 5.52%. The bonds were rated BBB+ by Standard & Poor's, sold on a competitive basis, and were purchased by J.J.B. Hilliard & W.L. Lyons, Inc., which also served as the financial advisor; Peck, Shaffer & Williams was bond counsel.

Chairman Damron asked Senator Leeper to take over duties of the Chair for the next two agenda items. Senator Leeper called on Mr. Howard to report on four new School Facilities Construction Commission (SFCC) issues: Boone County - \$4,560,000 for a refunding of a 1990 school bond issue; Boyd County - \$5,470,000 for construction of a new elementary school; Fulton County - \$335,000 for improvements to Fulton County High School; and Oldham County - \$6,775,000 for construction of a new elementary school.

Representative Graham made the motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Chairman Damron said he abstained from the vote due to a possible conflict of interest.

Senator Leeper said there was one new local school district bond issue with locally-funded debt service. The issue, submitted by Boyd County School District, is a refunding bond issue for \$3,850,000. Senator Leeper said no action was required on school bond issues that are 100% locally-funded.

Chairman Damron said the updated monthly/weekly debt issuance calendar was enclosed for the Committee's information.

Frankfort. Mr. Hintze said the state police use this facility for post operations and facilities securities, to operate the automated fingerprint system, and for public functions.

Because of the severity of the leaking roof, Mr. Hintze said he asked Commissioner Russ to hold an on-site meeting with personnel from Post 12 prior to making a recommendation. Upon inspection, it was discovered that trash barrels were being used to collect rain and the automated fingerprint system, a very expensive piece of equipment, was in danger of getting wet. Commissioner Russ concluded that the roof should be fixed immediately. Mr. Hintze said they have authorized up to \$500,000 from the Emergency Repair, Maintenance and Replacement Account to deal with the roof and the other code concerns.

Chairman Damron asked Mr. Hintze how the decision is made whether to use money from the Deferred Maintenance Account or from the Emergency Repair, Maintenance and Replacement Account. Mr. Hintze responded that for this project, the money could have come from either fund. The Deferred Maintenance Account is used for projects of agencies that do not have a maintenance pool or that have a very limited maintenance pool and have exhausted it. This project, however, fits the definition of an emergency because of the need to move quickly, and have the work done before the first of the year.

Chairman Damron said he would like to ensure that during the 1998 Session the issue of how the Deferred Maintenance Account is set up is addressed. Currently, the money lapses to the General Fund at the end of the biennium. He said the account should be set up so the money carries forward into the new biennium. Mr. Hintze said he will work with the Committee on this issue. He added that there are projects on the horizon to be funded from the Deferred Maintenance Account and said the Administration does not intend to sit on that money.

Chairman Damron asked if it would be better to put more money into the Emergency Repair, Maintenance and Replacement Account and not have a Deferred Maintenance Account, and what was the reason for having two accounts.

Commissioner Russ responded that the Emergency Repair, Maintenance and Replacement Account is used for projects that are a threat to human health and safety or a major disruption to government services. The Deferred Maintenance Account is

Chairman Damron said he was concerned about using a contingency-type account to do things the General Assembly would not approve when they are in session.

Mr. Hintze said the Kentucky State Police has not had \$500,000 in a biennium for maintenance in a very long time. He said he hopes to get them a bigger maintenance pool during the next Session, depending upon the availability of funds and priorities. He added the roof needs to be on this winter.

Chairman Damron said he hoped the General Assembly would look favorably upon the Kentucky State Police's request, and it was his understanding that \$500,000 for this project was not in the Governor's proposed budget for 1997-98. Mr. Hintze said it was not, and he added that at the time capital requests were made, they did not think the roof replacement would be of the magnitude it is.

Mr. Hintze next discussed Bluegrass Station in Fayette County (formerly the Lexington Bluegrass Army Depot) which is administered by the Department of Military Affairs. The Department received \$1,007,778 through a U.S. Economic Development Administration grant for infrastructure improvements at Bluegrass Station. Two current projects funded primarily through the grant are a water system upgrade and a sewer system upgrade. Mr. Hintze said the consultant for both projects, Professional Services Group, suggested the state could stretch its dollars by combining the two projects, finalizing and finishing out the water project, and taking care of the most pressing priorities on the sewer project. Mr. Hintze said they thought this was a sound idea in terms of spending money and managing the project, and Secretary McCarty agreed. The total scope of the two projects, now combined, is \$1,132,282. (This does not include the in-kind contribution of a water tank by the Kentucky-American Water Company.)

Chairman Damron said action from the Committee was not necessary, but they may want to take action because two projects and two project accounts are being combined.

Senator Buford asked what the long range plan is for this property. Mr. Hintze said the plan is to retain and increase employment at the site. Currently, there are federal defense contractors and federal defense agencies and civilian businesses as well, occupying space at Bluegrass Station. They pay rent, which Mr. Hintze indicated

Representative Wayne made the motion to approve the combining of the two projects and the two project accounts. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Damron referred to House Bill 5, enacted during the recent Special Session, which requires state procurement to be based on the concept of "best value". He asked Mr. Hintze if the new requirements would affect the way Bluegrass Station procures items. Mr. Hintze said they intend to change to best value procurement, and the bulk of this approach will not involve capital items, but will affect other purchases. He added that other jurisdictions are using this approach, rather than always taking the lowest bid, and the Administration believes the approach gives the state an opportunity to choose more reliable products that will work for a longer period of time.

Mr. Hintze said a team is working through the EMPOWER Kentucky initiative, Simplified Administrative Processes, to develop the details for the new procurement procedures.

Chairman Damron asked Mr. Hintze if he thought projects would be slowed down while waiting for the procurement rules to be submitted. Mr. Hintze said no project will be put on hold while waiting for procurement rules.

Chairman Damron said the following information item was enclosed for the Committee's information: Standard and Poor's Issuer Credit Rating for the Commonwealth. This rating was requested by the state to replace its rating for general obligation bonds. Chairman Damron said the rating for Kentucky was favorable, AA, and quoted from Standard & Poor's: "The 1996 General Assembly curtailed debt issuance to \$210.2 million, the lowest in 16 years, while maintaining a \$200 million budget reserve balance." He noted that because of actions taken by the General Assembly, the bond rating remains sound.

Chairman Damron said enclosed in the Committee's folders were the new administrative regulations proposed by the Kentucky Asset/Liability Commission. These new regulations are part of changes brought about by House Bill 5, 1997 Special Session. He said a report will be presented to the Committee at the August meeting on the results of the new commission's first issuance of a Tax and Revenue Anticipation Note (TRAN), as well as a follow-up report on TRANs recently issued on behalf of public schools.